

## Message Text

CONFIDENTIAL

PAGE 01 QUITO 03990 150243Z

72

ACTION EB-11

INFO OCT-01 ISO-00 IO-14 AEC-11 AID-20 CEA-02 CIAE-00

CIEP-02 COME-00 DODE-00 FPC-01 H-03 INR-10 INT-08

L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01 SCI-06

SP-03 SS-20 STR-08 TRSE-00 FEA-02 NSCE-00 SSO-00

USIE-00 INRE-00 PA-04 PRS-01 ACDA-19 AF-10 ARA-16

EA-11 EUR-25 NEA-14 DRC-01 /243 W  
----- 035369

O P 150146Z JUN 74

FM AMEMBASSY QUITO

TO SECSTATE WASHDC NIACT IMMEDIATE 1396

INFO USMISSION BRUSSELS IMMEDIATE

AMEMBASSY LONDON IMMEDIATE

AMEMBASSY PARIS IMMEDIATE

AMEMBASSY BONN PRIORITY

AMEMBASSY ROME PRIORITY

AMEMBASSY COPENHAGEN PRIORITY

AMEMBASSY DUBLIN PRIORITY

AMEMBASSY THE HAGUE PRIORITY

AMEMBASSY OSLO PRIORITY

AMEMBASSY LUXEMBOURG PRIORITY

AMEMBASSY OTTAWA PRIORITY

AMEMBASSY TOKYO PRIORITY

USINT ALGIERS PRIORITY

AMBMBASSY ABU DHABI PRIORITY 0005

AMEMBASSY BEIRUT PRIORITY

AMEMBASSY JAKARTA PRIORITY

AMEMBASSY CARACAS PRIORITY

AMEMBASSY JIDDA PRIORITY

AMEMBASSY KUWAIT PRIORITY

AMEMBASSY LAGOS PRIORITY

AMEMBASSY TEHRAN PRIORITY

AMEMBASSY TRIPOLI PRIORITY

AMEMBASSY VIENNA PRIORITY

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 QUITO 03990 150243Z

C O N F I D E N T I A L QUITO 3990

BEIRUT PASS TO BAGHDAD

BRUSSELS FOR ENDERS

E.O. 11652: GDS

TAGS: ENRG, OPEC

SUBJ: EC DEMARCHE TO OPEC COUNTRIES

REF: PARIS 14321

1. FOLLOWING IS INFORMAL TRANSLATION FROM SPANISH OF AIDE  
MEMOIRE CONTAINING EC DEMARCHE TO OPEC GOVERNMENTS ON PETROLEUM  
TAXES.

2. BEGIN QUOTE:. THE COUNTRIES OF THE EC HAVE TAKEN NOTE OF  
THE PROPOSALS MADE IN OPEC TO INCREASE TAX RATES ON EQUITY CRUDE.  
OPEC, ACCORDING TO INFORMATION, IS CONCERNED AS MUCH ABOUT THE  
HIGH PROFITS THAT PETROLEUM COMPANIES OBTAIN THROUGH SALE OF  
THEIR EQUITY CRUDE AT HIGH PRICES IN MARKETS OF CONSUMING COUN-  
TRIES AS IT IS ABOUT DISTORTIONS WHICH MAY ARISE IN DIFFERENT  
LEVELS OF CRUDE PRICES. THE COUNTRIES OF THE EC ARE AWARE THAT  
THIS DEALS WITH AN IMPORTANT QUESTION WHICH CONCERNS THE STRUC-  
TURE OF THE WORLD PETROLEUM INDUSTRY.

3. THE MEASURES OUTLINED BY OPEC FAVORING AN INCREASE OF TAX  
RATES ARE BASED ON ARGUMENTS THAT DO NOT APPEAR TO CONFORM TO  
REALITY AND WOULD RAISE SERIOUS PROBLEMS FOR THE COUNTRIES OF  
THE EC. AN INCREASE IN THE PRICE OF EQUITY CRUDE WOULD BRING  
AS AN IMMEDIATE CONSEQUENCE AN INCREASE IN THE COST OF THEIR  
SUPPLIES AND AT THE SAME TIME WOULD CAUSE AN EXAGGERATED DETER-  
IORATION OF THEIR BALANCE OF PAYMENTS AS WELL AS GREATER INFLA-  
TIONARY PRESSURE THAN WHAT THEY ARE ALREADY EXPERIENCING. FU-  
THERMORE, AN INCREASE IN THE COST OF SUPPLIES OF THIS NATURE  
WOULD HAVE REPERCUSSIONS ON DEVELOPING COUNTRIES AS WELL AND  
COULD EVEN HAVE NEGATIVE CONSEQUENCES FOR THE PRODUCING COUN-  
TRIES. IT WOULD BRING ABOUT AN INCREASE IN PRICES OF INDUS-  
TRIAL PRODUCTS THAT THESE COUNTRIES HAVE TO IMPORT. FINALLY,  
IT WOULD MAKE EVEN MORE DIFFICULT TO ACHIEVE EQUILIBRIUM IN  
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 QUITO 03990 150243Z

INTERNATIONAL TRADE RELATIONS AND A RESTORATION OF ORDER IN  
THE MONETARY AREA.

4. THE PETROLEUM COMPANIES COULD WITHSTAND THE TAX INCREASE  
DESIGNED BY OPEC ONLY IF THEY COULD MARKET THEIR PETROLEUM AT  
THE PRICE OF PARTICIPATION CRUDE. HOWEVER, IN THE EUROPEAN  
MARKET AND APPARENTLY ALSO IN THE JAPANESE MARKET, A VALUATION  
AT THIS LEVEL WOULD NOT BE PRACTICABLE AT PRESENT. THE COST

OF THE CRUDE WITH WHICH THE EUROPEAN MARKET IS SUPPLIED, AND THE RESULTING TRANSFER PRICES, IS NOT EQUAL TO THE PRICE OF EQUITY CRUDE BUT RATHER IS A PRICE BETWEEN THE PRICE OF EQUITY CRUDE AND PARTICIPATION CRUDE. FROM THAT IT FOLLOWS THAT THE PETROLEUM COMPANIES WITH THE PROFITS THAT THEY NOW RECEIVE FROM SALES MADE ON THIS BASIS, COULD NOT ABSORB THE OUTLINED TAX RATES, WHICH, THEREFORE, WOULD HAVE TO BE PASSED ON IN THE PRICE TO THE CONSUMER. IN THIS CONTEXT, THE COUNTRIES OF THE EC BELIEVE THAT THE PROFITS OBTAINED IN RECENT MONTHS BY THE PETROLEUM COMPANIES ARE DUE IN LARGE PART TO EXCEPTIONAL SITUATIONS.

5. THE COUNTRIES OF THE EC ARE DETERMINED TO TAKE EVERY MANNER OF CARE WHICH WILL PERMIT THEM TO BE INFORMED ABOUT THE MECHANISMS OF THE PRICE STRUCTURE IN THE PETROLEUM COMPANIES AND IN THE MARKET IN ORDER TO GUARANTEE THE GREATEST POSSIBLE TRANSPARENCY OF PRICES. THEY ARE DETERMINED TO GUARD AGAINST THE PETROLEUM COMPANIES ABUSING THEIR POSITIONS TO MAKE PROFITS WHICH ARE NOT JUSTIFIED BY NORMAL CONDITIONS OF THE MARKET. THE COUNTRIES OF THE EC DESIRE TO CALL THE ATTENTION OF THE COUNTRIES OF OPEC TO THE IMPERATIVE NEED TO NOT UNLEASH A PROCESS OF INCREASED TAX RATES WITHOUT THERE HAVING BEEN PRIOR ANALYSIS IN AN ADEQUATE MANNER OF THE CONDITIONS FOR A BALANCED INTERNATIONAL SITUATION IN PETROLEUM PRODUCTS, A MATTER IN WHICH THE OPEC COUNTRIES HAVE ALWAYS STATED THAT THEY HAVE A SPECIAL INTEREST. END QUOTE.

6. COMMENT: BRITISH AMBASSADOR TOLD ME HE SPENT A GREAT DEAL OF EFFORT IN PERSUADING HIS EC COLLEAGUES TO INSERT PHRASE "HIGH PROFITS" (IN PARA 2 ABOVE) IN PLACE OF "EXCESSIVE PROFITS" IN THE TEXT AS RECEIVED. APPARENTLY EC BRUSSELS ORDERED THE CHANGE BUT HERE ONLY THE BRITISH EMBASSY RECEIVED TIMELY INFORMATION ABOUT IT.

BREWSTER  
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 QUITO 03990 150243Z

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PROFITS, PETROLEUM, DEMARCHE, PRICES, AIDE MEMOIRE  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 15 JUN 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974QUITO03990  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D740155-0855  
**From:** QUITO  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1974/newtext/t19740641/aaaabjfh.tel  
**Line Count:** 154  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EB  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** PARIS 14321  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** golinofr  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 22 MAR 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <22 MAR 2002 by collinp0>; APPROVED <08 MAY 2002 by golinofr>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** EC DEMARCHE TO OPEC COUNTRIES  
**TAGS:** ENRG, EC, OPEC, EEC  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005